



IMPORTANT SHAREHOLDER RESOLUTIONS - QUESTIONS TO CONSIDER

1. DIRECTOR REMUNERATION

Remuneration of directors, both executive and non-executive, must be approved by shareholders. Companies must disclose the detailed breakup of all the remuneration components including basic and variable pay, and stock options, new performance benchmarks/criteria, extent of fulfilment of previously set performance benchmarks, and the ratio of managerial remuneration to average/median employee remuneration.

Shareholders should analyze the above information from the annual report. In addition, they can examine the following:

- Increase in remuneration vs increase in profitability
- If remuneration level is higher than comparable industry peers
- If there is a low proportion of variable pay (viz., performance related incentives, bonus, commissions, etc.) in the overall salary (especially for professional directors), shareholders can question the management
- Some promoters choose to award inexperienced family members with high salaries that are not justified by their role and position in the company. Shareholders should seek an explanation from the independent directors for their agreement with such a decision
- If the director is receiving remuneration from multiple sources

2. RELATED PARTY TRANSACTIONS

As per SEBI LODR, for listed companies, all material RPT (transaction value exceeds 10% of annual turnover, or 5% in case of royalty/brand payments) shall require prior approval of shareholders. The regulations prohibit interested/related parties from voting on such resolutions.

The companies must disclose the parties to the transaction, nature of association between parties, particulars of the transaction, economic benefit for interested parties, and other information.

Shareholders should look out for companies providing preferential terms to specific shareholders/other parties thereby transferring value from public shareholders to elsewhere. Shareholders should analyze the following:

- The rationale for the transactions
- Whether an independent opinion has been obtained on the valuation/pricing aspects
- Whether the approval sought is for an indefinite amount or an undefined time period
- Whether the quantum of royalty has been decided by an independent evaluation
- Track record on royalty payouts and alignment with performance of the brand

They should closely analyze the information provided by the company and seek clarifications from the management if they are unsure about the full implications of the transaction.



IMPORTANT SHAREHOLDER RESOLUTIONS - QUESTIONS TO CONSIDER

3. RAISING EQUITY / DEBT

According to Companies Act, issuance of shares on a pro-rata basis to existing shareholders (rights issue) will not require shareholder approval. However, if the issuance is to any other entity, it requires approval through a special resolution.

Companies must disclose the reason for issuance, details of issue, basis of valuation, to whom the allotment would be made, pre- and post-issue shareholding, among others.

Shareholders must scrutinize the following while voting on resolutions for raising capital:

- Use of proceeds
- Extent of dilution
- Urgency of funds
- Debt levels and available cash with the company
- Whether the proposal includes any issue of warrants
- Whether the issue is within the borrowing limits of the company (in case of debt instruments)
- Debt servicing capacity and past repayment history
- Leverage ratios and credit rating

